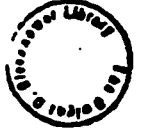


December 1, 1960

MEMORANDUM OF CONFERENCE WITH THE PRESIDENT
28 November 1960

Others present: Secretaries Anderson, Dillon
Generals Persons, Goodpaster



The President opened the meeting by speaking of the highly distorted press handling of the meeting at Bonn of Mr. Anderson and Mr. Dillon with Chancellor Adenauer. He said he knew the accounts of the meeting were factually incorrect in their basic elements because they wrongly stated that there had been no coordination between the Treasury and State Departments and that the Germans had not been notified in advance. The facts are of course quite different. The President also said that he had received a letter from Adenauer in which Adenauer had pressed for him to come to the December NATO meeting and had indicated that a large measure of agreement had been reached in the talks -- which seems to be something of an exaggeration.

Mr. Anderson then gave a report of the mission. He and Mr. Dillon had arrived on Saturday and had met with Ambassador Dowling on Sunday. Dowling, far from recommending a soft approach to the Germans, had recommended that the matter be put to them with total bluntness. Mr. Anderson said that in fact he and Mr. Dillon had softened one or two points of the presentation when they met with the Germans from what had been developed with Ambassador Dowling. Mr. Anderson said they had met with the Chancellor on Monday. They had outlined the balance of payments situation to him and the problem of our gold outflow. They had made clear the necessity for actions to defend the dollar and had brought out that support costs in Germany represent a \$600 million gold burden to us. They had stressed that we cannot run a \$4 billion deficit in balance of payments annually. Mr. Anderson said it was quite clear

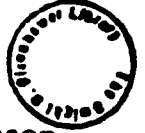
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E.O. 12958, Sec. 3-204

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that the Chancellor did not understand this problem at all well, in spite of repeated explanations. The Chancellor's own people confirmed this, and said that the matter is not one for which he has an understanding. Again and again Chancellor Adenauer came back to the point that there is only one thing that worries him, and that is the possibility that we might redeploy some of our troops. On this point Secretary Anderson stated and reiterated that President Eisenhower is resolved to do whatever the United States has to do to protect the dollar.

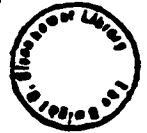


After meeting with the Chancellor, Mr. Anderson said the group met with German representatives. These representatives suggested what the Germans would be willing to do. They offered a \$1 billion foreign aid program for the coming year. Notably, this would include some grants and some soft loans -- this is an advance over any previous German statements. The Germans estimated that 20% of this billion dollars could be expected to result in expenditures in the United States. Second, the Germans offered a prepayment of the outstanding \$800 million on the GARIOA account; however, they conditioned this on the U. S. forgiving \$200 million of this as an off-set for the remaining vested German assets. Third, the Germans said they might buy some military equipment in the United States. Mr. Anderson said he told them that this action would help only if this were added to their budget. Mr. Dillon said that this is an important item, and that Assistant Secretary Irwin is working with the Germans on a plan for them to buy in the United States about \$400 million worth of military equipment a year which they would otherwise buy in Germany. The Germans are talking about \$250 million worth. Mr. Anderson said he thinks it would be desirable for them not to go far beyond \$300 million worth since they would then claim that this makes up for refusal to pay support costs.

Mr. Anderson said the Germans stressed over and over that they do not want to do anything that would harm the government in the election in later 1961, or add to the budget. The President observed that anything supporting our troop costs sounds like occupation charges to the Germans and is anathema to them.

Mr. Anderson said that in order to remove the bad psychological effect he had suggested that the Germans and the U. S. set up a military fund that would handle several kinds of things

and submerge the troop costs. They did not like this because they said it would increase their budget. Mr. Anderson said he told them that probably the only way to get relief in the circumstances was to redeploy their troops. He also told them that while he is not making the decisions he is certain that the President will do anything necessary to protect the dollar.



Mr. Dillon said that Chancellor Adenauer had told him that the Germans simply could not possibly pay support costs. Adenauer added that a Bundestag member who was recently in the United States had talked with President-elect Kennedy, and quoted Kennedy as saying that he would not ask the Germans to pay troop costs. Mr. Dillon observed that anything the Germans really do they will want to do for the new administration, so as to get maximum credit with them.

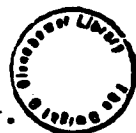
The President said that Adenauer had been pressing him to come to Paris. His real purpose is clear -- to get the President to promise that the United States would not redeploy troops. Mr. Anderson said we should not let the Germans off the hook, that we may take our troops out. He said that Mr. Blessing had said the Chancellor simply does not understand this issue but that the Chancellor very much wants to help us and not hurt us. He said that Blessing added that the biggest consideration is who is to be the next Secretary of the Treasury. Blessing even stated that Anderson could tell President-elect Kennedy this. Mr. Anderson commented that Baumgartner in France and Kobbold in the United Kingdom said exactly the same thing. Secretary Anderson said the Germans had asked him two or three times why the United States had not prohibited the Ford transaction. Mr. Anderson commented that the Fords said that they had given deep consideration to the adverse impact of their action but had decided to go ahead with it anyhow. Mr. Anderson had gone so far as to tell the Fords that their action might be the cause of imposition of exchange controls. Mr. Anderson said he told Erhard that the only way to restrict the Fords would be to impose exchange controls, and that Erhard was horrified at the thought. Secretary Anderson said that Kobbold had told him the United Kingdom will

not hold the dollars derived from the transaction. They will use some in the IMF, but the remainder, in the order of \$180 million, they will immediately turn in for gold in New York. Mr. Dillon commented that General Norstad had said it would be a long time before the GIs buy a Ford again.

Mr. Dillon said that the press has been carrying stories that Senator Kennedy wants him to be his Secretary of the Treasury. The President stated that Kennedy had told Mr. Nixon that he would like to have Dillon and Lodge in his administration, but that they would not be given policy positions. Mr. Dillon seemed somewhat surprised at this. The President went on to say that if Dillon were offered the Secretaryship of the Treasury, in his opinion he should take it at once and do everything in his power to protect our currency. The President added that if Kennedy were to offer him the Secretaryship of the Treasury, he would take it himself. Mr. Anderson reiterated that the key thing seems to be the question of who his successor is to be. Everyone in Europe is asking this. Mr. Anderson said that something tangible has already come out of the Bonn discussions, in the German willingness to make soft loans, and in their offer to buy additional military equipment. He thinks that we must be prepared to wrestle with them over troop deployments.

The President asked if he was correct in thinking there is no substantial dollar problem in Okinawa deployments, and Mr. Anderson said this is true. The President said what he had in mind is to cut down on deployments in Japan and move the forces to Okinawa.

Mr. Anderson said that Germany and Italy are the big problems. The President asked if we could scatter our troops more and use the soft currencies generated in each country to pay some of our expenses there. Mr. Anderson said this is a good idea although it is hard to see where this could be substantial. Mr. Dillon said the other Europeans are watching this whole situation closely to see that the Germans do not help us by shifting the gold drain to them.



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At this point Mr. Anderson said he would like to see the President go to the NATO conference in Paris in December and talk to the conference on fiscal problems. He went on to say that in reporting his mission he thought it was important to dispel two ideas the press had created -- that the talks had not been coordinated as between Treasury and State, and that we had not made clear to the Germans (as in fact we had) that support costs would be the central subject of the discussion. He also thought it should be made clear that we did not brush aside the German suggestions. In fact, we welcomed them but told them they did not give a full solution. General Persons said the press is carrying statements that Secretary Anderson wrongly views this problem as a long-range problem whereas, as the Germans state, it is really quite temporary and transitory. He thought this should be corrected.

The President thought that we might do well to build a backfire against the propaganda the Germans are putting out. The danger is that we must not go so far as to get a protectionist drive started. He would be quite ready to tell the Germans and Italians that we may put a higher Buy American differential back into effect.

Secretary Anderson said that Kobbold had told him he thought one possibility in the Ford action is that they are doing this to get their money out of the United States in anticipation of real trouble here. When Mr. Anderson indicated skepticism over this, I asked him if he did not think this was true. He said he did not. I volunteered the view that I did not see how it could be anything else, and that the Europeans, who have a long experience in this kind of thing, certainly recognize it is just that. Mr. Dillon said he was not sure on this score. I stated that another reason is certainly to take advantage of lower labor costs and higher profit rates abroad. Mr. Dillon agreed with this. General Persons asked whether Defense is cutting down its procurement abroad. I told him this was called for in the President's directive. He asked specifically about purchases of drugs in Italy and I said I would check this.

After reading over the proposed text for release, the President asked if we should not put in a paragraph indicating that conversations in Bonn, Paris and London, as well as other reports reaching

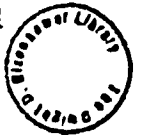
us indicate a considerable nervousness about American fiscal policy in the months ahead under the new administration, and a concern over inflation. Mr. Anderson said this is entirely correct, but would question when and how to say it.

Mr. Anderson indicated that he and Mr. Dillon had seen Senator Johnson and Senator Fulbright and had given them a short resume. Senator Johnson had asked what this administration recommended, and Mr. Anderson had told him that it is now their problem and we should not attempt to tell them how they should go about solving it. He said Mr. Johnson tried to get some statement from the Administration but he reiterated that it was his and Mr. Kennedy's problem. General Persons recalled that Secretary Anderson had briefed Mr. Nitze on the balance of payments matter and the German problem before making this trip. He thought Mr. Anderson should brief him again, and this was generally agreed and approved by the President. The President asked what kind of a man Mr. Nitze is. Mr. Dillon said he is a very able and dedicated man, extremely embittered against the Republicans because, as a Republican, he was forced to withdraw from consideration for Assistant Secretary of Defense by Senator Knowland early in this administration. He thereupon became a Democrat. I told the President I agreed with Mr. Dillon's assessment of Mr. Nitze's capacities. He is very keen and able although he does not have perhaps a personal "fly wheel" of a size commensurate with his energy and intelligence.

Mr. Anderson said that when Mr. Kennedy becomes President, President Eisenhower will have the only voice stronger than his in our country. He thought that the President should say that all citizens should try to be a brake on Mr. Kennedy since he is dealing with the whole world economic system. He again raised the question of the President going to Paris.

The President said that if he did so he would have to take Mr. Kennedy and that this would be impossible, both for him and for Mr. Kennedy. If de Gaulle, Adenauer and Macmillan were to come over here, he would be glad to see them at Camp David, for example. He would not have to have Mr. Kennedy present at these discussions, although they could of course see him separately.

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Mr. Anderson said that Ambassador Dowling had told him it is not likely that Adenauer will be the next Chancellor. His party will decline in power. Mr. Dillon said he agreed and thought that a coalition is inevitable, and that Adenauer would not be its representative.

After the meeting ended, Mr. Anderson said that in consideration of the points the President had made, he would withdraw his recommendation that the President go to Paris.


A. J. Goodpaster
Brigadier General, USA

